

*“Do the Rich Save More? Evidence
from Japanese Micro Data for the
2000s”* by Hori, Iwamoto, Niizeki and
Suga

Discussion by
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Contribution of Paper

- Contributes to a new literature on an old question, “Do savings rates increase with permanent income?”
- This literature, starting with Dynan, Skinner and Zeldes (2004), uses survey data unavailable to researchers in the 1950’s and 60’s.
- In this case, two surveys of Japanese households to better proxy for permanent income.
- Authors find that indeed savings rates increase with income.

Interpretation of Findings

- Need structural lifecycle model that delivers behavior consistent with empirical findings.
- We need to know *why* rich households save more to draw policy implications.
- Is consumption tax regressive? If rich leave large bequests, answer may be “yes.” If they consume all lifetime income, answer may be “no.”

Possible Explanations

- Rich are more patient (lower discount rate) than poor.
 - Implies not only that rich save more during working ages, but dissave more during retirement.
 - Some evidence in Japanese data, little evidence in U.S. data.
- Means tested public welfare programs.
 - Poor households may save less to avoid accumulating assets that would disqualify them from receiving assistance.

Possible Explanations (cont.)

- Rich more likely to leave large bequests to children.
 - Consistent with dynastic model where households expect children to earn mean income.
 - Dynan et.al. find no evidence that households with children save more than those without.

Possible Explanations (cont.)

- Precautionary savings motives: large medical expenses late in life (Long Term Care-LTC)
 - Seems like nonstarter: Should lead to higher savings rates among poor since risks are a larger percentage of lifetime income.
 - But, there are options related to LTC: private LTC, public LTC, or care provided by family members.

Long Term Care

- Growing literature that emphasizes LTC in accounting for savings behavior of old.
 - Papers by De Nardi, French and Jones. In particular, “*Why do the Elderly Save? The Role of Medical Expenses,*” JPE (2010).
 - Recent working paper by Americs, Briggs, Caplin, Shapiro and Tonetti, “*Resolving the Annuity Puzzle: Estimating Life-Cycle Models without (and with) Behavioral Data.*” Can identify bequest motive from LTC motive.

Long Term Care (cont.)

- LTC not covered by Medicare in U.S. (I don't know how this works in Japan.)
- 70% of those turning 65 will require some form of LTC.
- Number of years required differs greatly across individuals.

Obtaining LTC in U.S.

- Public option available through Medicaid
 - Need to run down assets to qualify.
 - Perceived as much lower quality than private options.
- Purchase LTC insurance
 - Only 8 percent of elderly have insurance.
 - Expensive relative to expected payout
 - Many denied for preexisting conditions.
 - Brown and Finkelstein (2008): Medicaid second payer so need to pay for redundant benefits. Crowding out.

Obtaining LTC in U.S. (cont.)

- “Vast majority” rely on family members for LTC. (Kaiser Family Foundation).
 - Very costly to family members involved in providing care.
- Private long term care.
 - Not available to those on Medicaid.
 - Cost is high. Average is \$6,965 per month for private room in nursing home. (U.S. Department of Health and Human Services)

My Proposed Explanation

- Both rich and poor need to worry about LTC.
- Insurance not attractive.
- Private option, if chosen by wealthier individuals, would require considerable additional savings relative to public option (or family care) perhaps chosen by the less wealthy.
- Purely speculation on my part!!!

Conclusion

- Paper provides an interesting empirical result.
- Presumably explanation will depend on factors that are common across all countries (Japan, Canada, U.S.) where the rich appear to save more.
- Need structural model consistent with empirical findings to obtain policy implications. Need answer to question: *why* do the rich save more?